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## Was Securities Firm a Front for the CIA?

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Special to The National Law Journal

HONOLULU — Claims by a high-rolling, colorful fraud defendant that he was an operative of the CIA in a sham securities operation have resulted in a storm of litigation that reaches from here to Washington, D.C., and includes several multimillion-dollar suits by investors seeking to recover their losses directly from the agency.

Ronald Rewald's assertion that the spy agency set him up in the securities business and directed his work interested plaintiffs' lawyers from the start. They became particularly intrigued after the CIA persuaded U.S. District Senior Judge Martin Pence here to seal, on national security grounds, all the papers pertaining to Mr. Rewald's involuntary bankruptcy and to a Securities and Exchange Commission fraud suit against him. *SEC v. Baldwin, Dillingham, Rewald and Wong*, 83-812. The judge also issued a gag order to apply to comments about either case.

The CIA has since acknowledged a "slight connection" with Mr. Rewald although it denies the substance of his allegations, Asst. U.S. Attorney John F. Peyton of Honolulu said. He is former

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RONALD REWALD

Photo/Honolulu Star-Bulletin

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# CIA Faces Fraud Suits

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chief of the CIA's litigation section and last July joined the Honolulu U.S. attorney's office by "coincidence" a few days before the securities firm was publicly revealed to be insolvent.

## A Ponzi Scheme

Mr. Rewald's investment firm, Bishop, Baldwin, Dillingham, Rewald and Wong, collected a total of \$23 million from some 400 investors between 1978, when it began, and its collapse last summer. In the SEC action, Judge Pence has ruled that the firm was a classic Ponzi scheme and found that Mr. Rewald kept the money for his own use, managing to pay early investors with money from later ones.

After reviewing sealed court documents, Judge Pence suggested Mr. Rewald's connection with the CIA was not as close as he had described, Mr. Peyton said. But what kind of relationship the intelligence agency did have with Mr. Rewald — whose record includes a theft conviction and a personal bankruptcy, both in Wisconsin in 1976 — has not been made clear.

Mr. Rewald, who faces state and federal securities fraud charges in Hawaii, contends the CIA got him started in the investment firm. He further claims the agency instructed him to adopt an ostentatious pattern of living in order to attract the friendship and confidence of foreign officials. He purchased a polo club, a dozen luxury automobiles and the Honolulu home of deposed Cambodian Prime Minister Lon Nol and became known among the island's elite for the parties he staged.

As unusual as the CIA's court filings in the Rewald cases are the individuals with whom Mr. Rewald rubbed shoulders while promoting his firm. They include the present and former CIA station chiefs in the islands — the latter of whom went to work for the Bishop Baldwin firm after retiring — as well as Air Force Pacific Commander Gen. Arnold Braswell and his predecessor, four-star Gen. Hunter Harris.

## Complaints Against U.S.

Mr. Rewald says it was all part of being a CIA operative, and he has filed three suits, each asking \$671 million in damages from the U.S. government. One, a tort action, was filed in federal court here as a third-party complaint in his involuntary bankruptcy proceedings. *In re Bishop Baldwin Inc.*, 83-00381. He filed an identical claim, again as a third-party complaint, in a civil fraud case launched against him in federal court here by one of his investors. *Guatama v. Rewald*, 83-0848.

The third Rewald suit is based on the CIA's alleged violation of a secret contract Mr. Rewald contends he had with the agency. It is pending before the Court of Claims in Washington, D.C. *Rewald v. U.S.*, 56-84-C. The government has moved to dismiss that case, arguing that if Mr. Rewald had a secret contract it would not be actionable because of national security concerns, according to San Francisco lawyer Paul M. Monziane.

Mr. Monziane, of the law offices of Melvin M. Belli Sr., represents Mr. Rewald in his cases against the United States. In addition, the Belli firm represents, at present, about 70 investors who are also suing the CIA for the negligent operation of Bishop Baldwin. Mr. Monziane said he expects the firm will represent as many as 200 investors before

"We believe the Rewald case and the investors case have tremendous damage potential," he said. "The CIA defrauded these people into believing that Bishop Baldwin was a legitimate investment firm when it was a proprietary business. If the CIA wanted to run a covert operation out of Honolulu, that's their business as long as they took steps to make sure none of the investors lost money."

Mr. Monziane acknowledged "a potential conflict of interest" because his firm represents both Mr. Rewald and some investors.

"We don't believe it presents a problem," he said. "We inform all our clients of the potential conflict of interest, and feel that by representing Ron we can benefit our clients more than damage them. Ron's bankrupt, broke, and there's no reason to go after him. If we find out circumstances are different, at that time we will review the situation."

## Intentional Infliction of Distress?

The suits by Mr. Rewald and the investors also include claims of intentional infliction of emotional distress, said Robert A. Smith, a sole practitioner here with whom the Belli firm is working.

"The CIA funded the operation, knew how Bishop Baldwin derived its mon-

In addition, Mr. Rewald, represented by Mr. Klein, is suing Time magazine in federal district court in San Francisco for \$10 million in a defamation action over the magazine's reporting on his bankruptcy, *Rewald v. Time Inc.*, C84-3035. He also has named bankruptcy trustee Thomas Hayes in a \$150,000 complaint in state circuit court here for allegedly arranging damaging news coverage. *Rewald v. Hayes*, 82273.

Mr. Hayes said there were 235 claims totaling more than \$11 million in the bankruptcy case by last fall, and that he expects claims to exceed \$12 million. More generally, he said assorted litigation resulting from Bishop Baldwin is at only the "preliminary stage," and "we're not even at one fourth" of the filings by the firm's creditors and investors.

As unusual as the CIA's court filings in the case are the individuals with whom the defendant has been rubbing shoulders.

ey, and joint funds — agency money and Bishop Baldwin revenue — were spent in the operations," he said.

"The most decisive aspect will be whether the government will allow us to have access to the evidence to prove Ron Rewald's involvement with the CIA and to prepare his defense," Mr. Monziane said. "National security is something we anticipate the government raising to prevent us from obtaining necessary documents. All of these investors and Ron Rewald could be left without any recourse if the government takes the position these people are not entitled to discovery because of national security."

Mr. Smith and the Belli firm also have associated with Rodney A. Klein of Sacramento, Calif., who has filed a \$5.5 million suit against the CIA in federal court in San Francisco on behalf of Robert Jinks, a Napa, Calif., lawyer and investment counselor, and 14 of Mr. Jinks' clients, whose investments were placed with Bishop Baldwin. *Jinks v. CIA*, C84-0517.

## Defamation Suit

Another typical investor's suit was filed in federal court here against the CIA by Honolulu chiropractor Ted Frigard, who lost about \$300,000 in the Bishop Baldwin collapse. Mr. Frigard also is represented by the Belli firm. *Frigard v. U.S.*, 84-0419.